

VZCZCXRO7318  
PP RUEHCN RUEHGH RUEHVC  
DE RUEHIN #2505/01 3240708  
ZNR UUUUU ZZH  
P 200708Z NOV 07 ZDK CTG MANY SVCS ZDK  
FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC PRIORITY 7414  
INFO RUEHOO/CHINA POSTS COLLECTIVE  
RUEHBK/AMEMBASSY BANGKOK 3886  
RUEHBY/AMEMBASSY CANBERRA 4644  
RUEHML/AMEMBASSY MANILA 0195  
RUEHGP/AMEMBASSY SINGAPORE 7059  
RUEHKO/AMEMBASSY TOKYO 9254  
RUEHWL/AMEMBASSY WELLINGTON 1910  
RUEHCHI/AMCONSUL CHIANG MAI 0327  
RUEHHM/AMCONSUL HO CHI MINH CITY 0155  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 TAIPEI 002505

SIPDIS

SENSITIVE  
SIPDIS

STATE PASS USTR, STATE FOR EAP/TC, USTR FOR STRATFORD AND  
KATZ, TREASURY FOR OASIA/TTYANG, COMMERCE FOR  
4431/ITA/MAC/AP/OPB/TAIWAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EFIN](#) [PREL](#) [TW](#)

SUBJECT: TAIWAN ENJOYS STRONG FOREIGN INVESTMENT INFLOWS

TAIPEI 00002505 001.2 OF 002

¶1. (SBU) SUMMARY. Taiwan attracted roughly \$24 billion in foreign direct investment (FDI) in 2006 and the first nine months of 2007, adding to a total of nearly U.S. \$89 billion in cumulative FDI since 1952. Taiwan's attractiveness as an international mergers and acquisitions destination is based in part on solid corporate balance sheets and a relatively high number of family-owned firms seeking foreign partners. The U.S. is Taiwan's single largest foreign investor, with nearly U.S. \$16 billion in cumulative investment, followed closely by Japan. Caribbean tax havens and EU member countries are other significant sources of FDI. Foreign investment is concentrated in the electronics, finance and insurance, and wholesale/retail sectors. END SUMMARY.

-----  
Investor interest stays strong  
-----

¶2. (SBU) According to Berton Chiu, Director General of the Ministry of Economic Affairs' Department of Investment Services (DOIS), total new foreign direct investment inflows into Taiwan reached a record of about US \$14 billion in 2006, and totaled roughly \$10 billion through the end of September ¶2007. Foreign investors are increasingly focusing on the banking, telecommunications, and retail sectors, he explained, as well as R&D-intensive manufacturing. Most FDI is driven by market-based mergers and acquisitions (M&A) activity, said Chiu, rather than the Taiwan authorities' efforts to target specific companies or sectors. (NOTE: M&A investment is typically less associated with job creation and industrial capacity expansion than "greenfield" investment in new facilities.) Separately, Morgan Stanley Taiwan chairman Gary Kuo told us that Taiwan's foreign equity deals totaled approximately \$6 billion in the year through September, second in the region only to Australia. Most of this total comes from U.S. investors, he added. Some financial analysts have noted that Taiwan firms' relatively low price/earnings ratios make them attractive prospects compared with other markets in the region. Since Taiwan has a relatively large number of family-owned small- and medium-sized enterprises, observed Chiu, second- or third-generation family managers often turn to foreign investors to help improve their firms'

competitiveness. DOIS is trying to elicit foreign investor interest in Taiwan's broadband, digital information technology, health care, and renewable energy sectors, added Chiu. In a separate meeting, Taiwan Institute for Economic Research (TIER) President David Hong said electronics, finance/insurance, and wholesale/retail remain the major sectors of interest to foreign investors.

-----  
U.S., Japan are the top foreign investors  
-----

13. (U) The United States is the single largest foreign investor in Taiwan. Based on Taiwan official statistics, U.S. firms invested a total of U.S. \$15.846 billion in Taiwan between 1952 and September 2007, giving the U.S. nearly 19 percent of the total \$84.85 billion invested in Taiwan during the period. Japan comes next, at nearly \$15 billion, or about 18 percent. DOIS staff told us that the U.S. has been the leading foreign investor for about ten years, surpassing Japan, the previous leader. British Caribbean territories account for \$14.3 billion, or nearly 16 percent, of foreign investment, although official and private contacts indicate it is extremely difficult to determine the actual source of investments channeled through these tax havens. The Netherlands is the source country for \$13.2 billion in FDI, or almost 16 percent of the total. Other major foreign investors include Singapore, with around 6 percent of total FDI, the UK, at 5.55 percent, and Hong Kong, with nearly 4 percent.

14. (SBU) In Chiu's analysis, use of tax havens may significantly affect both inbound and outbound investment statistics. Taiwan's double taxation avoidance agreement with the Netherlands, for example, artificially increases the amount of Dutch investment in Taiwan as companies from other EU members take advantage of the agreement's tax preferences

TAIPEI 00002505 002.2 OF 002

by incorporating in the Netherlands before investing in Taiwan. In the past, said Chiu, Taiwan companies often favored Caribbean tax havens, but many have shifted to Hong Kong in order to avail themselves of beneficial tax harmonization measures between Hong Kong and the PRC. Although Taiwan bans all investment from the mainland, Chiu noted it is virtually impossible to determine to what extent PRC investment reaches Taiwan via third-country tax havens. That analysis was echoed by TIER's Hong, who said it is difficult to tell the nature or amount of any mainland Chinese investment in Taiwan.

15. (SBU) According to Taiwan data, 16 percent of foreign investment is concentrated in the electronic component sector, followed by almost 15 percent in finance and insurance, and 9.5 percent in wholesale/retail. The other major sectors are roughly equally divided between computer products, power generation, financial holding companies, information and telecommunication equipment, professional services, and chemicals, as well as both metal- and non-metal manufacturing.

Looking to the future, Chiu expressed concern that Taiwan's avid competition with South Korea to attract foreign investment will only intensify if the U.S.-Korea FTA enters into force. Chiu worried that the FTA may prompt U.S. companies to tip the balance in favor of investing in Korea over Taiwan, especially in high technology sectors where the two economies have substantial levels of overlap. Based on IMF data through 2006, FDI accounts for 21.6 percent of Taiwan's GDP, versus 13.2 percent in South Korea. South Korea attracted \$6.3 billion in FDI in 2005, and \$3.6 billion in 2006. FDI plays a much more significant role in the city-state entrepôts of Singapore and Hong Kong, accounting for 253.6 percent and 537.4 percent of GDP, respectively.

16. (SBU) COMMENT. Taiwan's investment climate is not always ideal. Earlier this year, for example, a major U.S. private equity firm scuttled its planned purchase of a Taiwan

technology company, reportedly after Taiwan authorities expressed informal concern that the purchase would involve de-listing the company from the stock market, as well as allow it to circumvent restrictions on mainland investment. In general, however, Taiwan remains an attractive destination for foreign investment, as witnessed by the recent strong performance of inbound FDI. Greater cross-Strait integration, which will be likely no matter who wins the presidential election next March, will probably only increase foreign investor interest. END COMMENT.  
YOUNG